

# Pay and Employment Reform in Developing and Transition Societies

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## Acronyms

<b>CR</b>	compulsory redundancy
<b>CSA</b>	Civil Servants' Association
<b>GDP</b>	gross domestic product
<b>HRM</b>	human resource management
<b>IMF</b>	International Monetary Fund
<b>LIFO</b>	last in, first out
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PSC</b>	Public Service Commission
<b>PRP</b>	performance-related pay
<b>RMC</b>	Redeployment Management Committee
<b>UNDP</b>	United Nations Development Programme
<b>USSR</b>	Union of Soviet Socialist Republics
<b>VR</b>	voluntary redundancy

## **Summary/Résumé/Resumen**

### ***Summary***

Pay and employment reform has been a significant phenomenon in developing and transition societies in recent years. The background to reform is presented—in terms of the significance of reform and the (sometimes differing) aims of governments and other actors, including donors—together with the political, economic and social influences on reform. Changes to the number and the remuneration of civil servants are analysed, and the instruments which brought about those changes are reviewed. Comparative material from the reform experience of Organisation for Economic Co-operation and Development (OECD) countries is brought to bear. The experience of reform is discussed in the light of the Copenhagen Declaration and Programme of Action, with a particular emphasis on the impact of reform on workers, including those who are members of disadvantaged groups, and on the steps that governments have taken to alleviate negative impacts. The paper concludes with an overall assessment of the experience of reform.

### ***Résumé***

La réforme des salaires et de l'emploi est, depuis quelques années, un phénomène important dans les pays en développement et les sociétés en transition. L'auteur dépeint la toile de fond sur laquelle s'inscrit la réforme, expliquant l'importance de la réforme et exposant les objectifs (parfois divergents) des gouvernements et d'autres acteurs, notamment des donateurs, ainsi que les influences politiques, économiques et sociales qui se sont fait sentir. Il analyse les changements apportés au nombre et à la rémunération des fonctionnaires et les instruments qui les ont amenés. Il étudie des données comparatives concernant les réformes effectuées par les pays de l'Organisation de coopération et de développement économiques (OCDE). Tout en examinant l'expérience de la réforme à la lumière de la Déclaration de Copenhague et du Programme d'action, l'auteur accorde une attention particulière aux conséquences de la réforme pour les travailleurs, notamment ceux des groupes défavorisés, et aux mesures prises par les gouvernements pour en atténuer les effets négatifs. En conclusion, l'auteur dresse un bilan général de cette expérience de réforme.

### ***Resumen***

La reforma de los salarios y del empleo ha sido un fenómeno importante en las sociedades en transición y en vías de desarrollo en los últimos años. Los antecedentes de la reforma se presentan—en cuanto a la importancia de la reforma y de los objetivos (a veces divergentes) de los gobiernos y de otros actores, incluidos los donantes—junto con las influencias políticas, económicas y sociales de la misma. Se analizan los cambios operados en el número de empleados civiles y en su remuneración, y se estudian los instrumentos que han producido dichos cambios. Se expone para su consideración, material comparativo procedente de la experiencia de la reforma de los países de la Organización de Cooperación y Desarrollo Económico (OCDE). Se debate la experiencia de la reforma a la luz de la Declaración de Copenhague y del Programa de Acción, prestando particular atención a los efectos de la reforma en los trabajadores, incluidos los miembros de grupos marginados, y las medidas adoptadas por los gobiernos para combatir los efectos negativos. El documento concluye con una valoración general de la experiencia de la reforma.

## **Introduction: The Background to Reform**

### ***The structure of the paper***

This paper reviews the experience of pay and employment in developing and transition societies. It begins by presenting the background to reform: its significance, the typical aims that reform programmes espoused and the political, economic and social influences on reform. It reports the effect that reform has had on the size of the public workforce, and the reform methods that produced that effect. It compares the developing and transition country experience with the experience of Organisation for Economic Co-operation and Development (OECD) member countries. Since the paper has been written in preparation for the United Nations General Assembly Special Session, Geneva 2000: Taking Responsibility for Social Development, it looks at reform in the light of the Copenhagen Declaration and Programme of Action, which have implications for the conduct of reform. Finally, an overall assessment is made of the outcomes of reform.

### ***The significance of employment reform***

What has come to be called pay and employment reform, or (somewhat misleadingly) civil service reform, is one of the most important human resource initiatives to be taken by developing country governments in recent years. Reform in this context refers to those measures that governments have taken to alter the employment and payment of their staff, typically within some larger programme of macroeconomic reform. "Reform" is often a euphemism, since in practice the most prominent measure has been job reduction, with which reform has frequently been synonymous (Pronk, 1996).

It is easy to demonstrate the importance of reform. Between 1987 and 1996 the World Bank assisted no fewer than 68 developing and transition countries with reform programmes (Nunberg, 1997), a large figure that excludes countries that have reformed under their own steam. China, which in 1998 embarked on a reform programme designed to cut the number of its civil servants by half – or, in other words, by a projected four million people (The Economist, 1998), is the most dramatic example. There are others, such as Malaysia and South Africa. In 1996, South Africa's Finance Minister announced the government's intention to reduce the number of civil servants by a quarter, from 1.2 million to 900,000.

### ***The aims of reform***

What is the purpose of pay and employment reform? It is surprising how seldom this question is asked. Reforms of pay and employment have often been intimately linked with wider public sector reform. In the case of developing countries, the latter comes under the heading of "structural adjustment" and is sufficiently widely known to not require restating here (see World Bank, 1981; Mosley et al., 1991; Nelson, 1990). In the case of the so-called transition economies of Central and Eastern Europe, it is part and parcel of the transition from a socialist, planned economy to a capitalist, market economy (World Bank, 1996). The influence of public sector reform in industrialized countries, in particular what has come to be called the "New Public Management" (Dunleavy and Hood, 1994; OECD, 1994), is also apparent. These three schools of thought have many common features, leading some to posit a growing globalization

of public management (OECD, 1994). They share an emphasis on a reduced role for the state, a reduction in public expenditure and a concomitant reduction of the public payroll. (For a general discussion of public sector reforms as a whole, see Bangura, 1999.)

#### The Washington model of reform

Thus pay and employment reforms have typically been one component of an economic programme in which the private sector replaces the public sector as the engine of economic growth. In this context the objective of reform might be stated as "*a lean and efficient public service*". It is easy to see how actions such as reducing the number of civil servants and eliminating ghost workers contribute to this objective.

This, in essence, is what has been labelled the "Washington model" of employment reform (see McCourt, 1998a). In this model, the reduction of the number of civil servants is supposed to be offset by an increase in the wages of those who survive, and particularly of senior and specialist staff. Evidence has been produced (World Bank, 1997) for the existence of a link between the level of wages in the public sector and the incidence of corruption, and some writers (such as Stevens, 1994b) have also argued for steps to "decompress" public wages, so that the income differential between high- and low-paid staff, which has decreased in many countries, would increase again.

#### Other approaches

That is one model of reform. But governments may have other fish to fry where reform is concerned. Griffin (1975:2) commented on agriculture reform that "Rather than criticising governments for failing to attain, or offering advice on how to attain a *non-goal*, it would be instructive if more time were devoted to analysing what governments actually do and why." The same is true of pay and employment reform. To the extent that reform is internally driven, there are likely to be objectives that differ from those of the Washington model. While Singapore, for instance, has been preoccupied by the need to retain staff in the face of competition from the private sector in a tight labour market, South Africa has emphasized transforming an apartheid bureaucracy, through affirmative action, into a public workforce which represents the ethnic and gender composition of the country's population. Sri Lanka has been using constitutional reform as a device to solve the problem of Tamil insurgency by co-opting Tamil representatives into the system of governance. Uganda has attempted to free resources to meet the government's commitment to universal primary education.

Such objectives may overshadow conventional efficiency objectives. "A rightsized and representative public service" was the stated objective of the South African government's reform programme in a project agreement with the United Kingdom. But an evaluation after 15 months of assistance found that while substantial progress had been made toward achieving representativeness, little had been made toward rightsizing (McCourt, 1998). Thus an analysis of trends in pay and employment reform must be sensitive to the actual priorities of governments, and not impose on them the priorities that others might wish them to have.



### Unions and reform

It follows that there is the potential for disagreement between different reform stakeholders. One might expect that worker representatives would disagree with particular vehemence with any objective that entailed job losses. But in practice civil servants' unions have sometimes acquiesced in reform, or even been prepared to recognize national objectives that might override their members' welfare. "Government believes we are hostile to reform," said one union official in Sri Lanka, "but we support reform. If reform is constructive and in the interests of the country, we support it." Similarly, the Civil Servants' Association (CSA) in Ghana "gave its blessing" to reform. But agreement with the aims of reform does not preclude disagreement about its conduct. Speaking on the reaction of civil servants to reforms in Uganda, an official said that "[t]he whole reform process was welcomed, but the way it was handled is now detested". One aspect of the conduct of reform in which unions had a particular interest was, naturally, their participation. Union representatives resented their exclusion from the reform dialogue in Sri Lanka and Uganda.

### Donors and reform

The main donor involved in pay and employment reform has been the World Bank. Between 1981 and 1991, 44 developing countries received assistance with civil service reform from the World Bank alone (Nunberg, 1994). The International Monetary Fund (IMF), with its remit for macroeconomic stabilization, tends not to intervene directly, though a preferred figure for civil service expenditure may appear as a "structural benchmark" in an IMF loan. The United Nations Development Programme (UNDP) is also active in many countries. Among bilateral donors, the UK's Department for International Development (DFID) has been heavily involved, and other bilateral donors have also supported reform in line with their different development priorities.

Diverging objectives of donor agencies and recipient governments have sometimes led to difficulties. This is illustrated by the case of Sri Lanka.

Sri Lanka has made several attempts at pay and employment reform since an Administrative Reforms Committee produced a comprehensive report in 1987. Early attempts at reform were ineffectual: a first round of reform in the late 1980s implemented a recommendation to increase civil service pay, but not the related recommendation to reduce the number of jobs. The second round of reform, in the early 1990s, had structural weaknesses and centred on a voluntary redundancy (VR) package that, although expensive, again failed to reduce the number of jobs.

The perception in Sri Lanka that donors, following the early reform failures, were pressing for a harsh package of reform measures created a focus for opposition to reform. Donors were identified with a privatization programme that was perceived to be harsh. As a result, even an innocuous measure like performance appraisal could be portrayed by staff, and resisted, as a World Bank imposition. Thus in the latest round of reform the government has only a limited package of external assistance, and no external advisors. A senior government official commented, "We don't want our programme to be donor-driven. We have avoided a situation where donors can hold us to account". In the donor community, however, the government was

seen as dragging its feet, and not being serious about reform, and its proposed major restructuring of central-local relations was seen as an expensive irrelevance. This was certainly true in the context of employment reform. But the plan was motivated mainly by a desire to confront the problem of Tamil insurrection by conceding greater autonomy to regions, and to Tamil areas in particular (McCourt, 1998c).

Thus where political commitment to a cost driven programme was already strong, as in Ghana and Uganda, donor involvement contributed to the implementation of sharply focused programmes. But in more complex stakeholder environments, such as Sri Lanka and South Africa, donors were apt to be heavy-footed, and even to create a focus for opposition to reform.

### ***Influences on reform***

In this section I review the political, economic and social factors that have influenced the conduct and outcomes of reform.

#### **Political factors**

The success of reform has been affected by the degree of political support for it. World Bank evaluations have identified political commitment as the key factor in the success of reform (Nunberg, 1997). Clearly it is helpful to have a strong leader with a personal commitment, as recently seen in Malaysia and Uganda, but authoritarian governments have also been a negative influence on reform (Nelson, 1990). In countries where authority is more diffused, it has been necessary to painstakingly construct a reform coalition. That has been the case in South Africa and Sri Lanka, whose governments at the time of writing were coalitions that included trade unions. Moreover, political will has been a function of the quality of advice offered to politicians: implementation of reform in Ghana was delayed by opposition from senior civil servants, not politicians (Burton et al., 1993), and donor influence may have undermined rather than bolstered political will in some cases (World Bank, 1998).

#### **Economic factors**

The context in which pay and employment reform has taken place means that reform in this area has been fiscally driven: it is the economic agenda that has dominated discussion. The economic context has clearly had an impact on reform, though in a somewhat complex way. Prosperity may facilitate reform by allowing a government to buy off opponents (as with Malaysia's pay reforms and the United Kingdom's winding down of its coal industry), but it may also allow it to postpone still further the evil day of root-and-branch reform (as, at the time of writing, in Sri Lanka). Adversity may also have a paradoxical effect. In Ghana it dictated that overstaffing in public enterprises should be addressed, but also that government would initially fail to do so effectively because it could not afford the severance benefits to which retrenchees would be entitled (Davis, 1991).

#### **Social factors**

Social factors have also had a bearing on the progress of reform. Despite declining wages, public employment continues to be attractive in many countries. For example, there were 214,000 applications for 782 public clerical vacancies in Sri Lanka in 1997 (McCourt, 1998b).

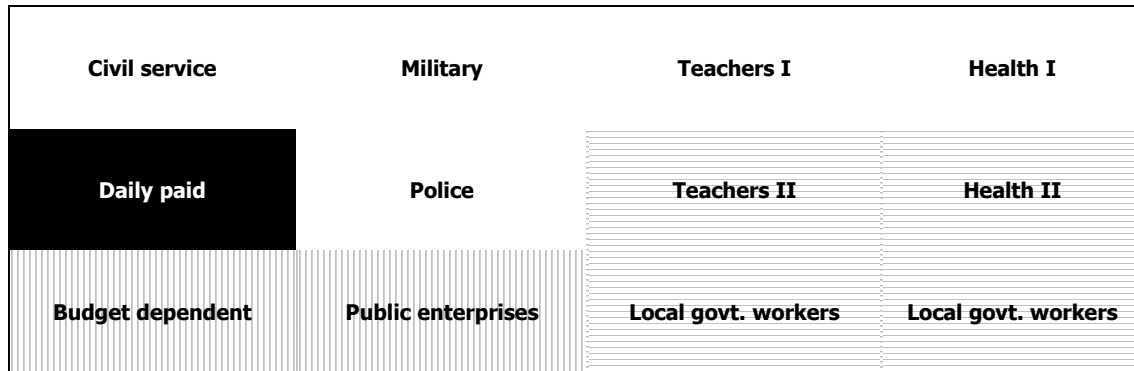
When combined with ascriptive tendencies in a society where patronage is rife, this can exert strong upward pressure on public employment, which is difficult to contain. Decentralization of recruitment authority to public enterprises as part of a World Bank-sponsored reform programme in Nepal led to a considerable increase in nepotistic appointments (McCourt, 1998c).

## Pay and Employment Reform: What Has Happened

### *Scope of analysis*

In discussions of pay and employment reform there is often confusion about its scope: are public enterprises included or not? what about local authorities? and so on. It is helpful to present this visually; as in Figure 1.

**Figure 1: The universe of public sector staffing**



Source: Stevens, 1994b. Key: Unshaded areas indicate central government payroll. Black shaded area indicates daily paid staff. Vertical shaded areas indicate parastatals. Horizontal shaded areas indicate local government payroll. Proportions are illustrative and do not represent public employment shares of any particular country.

In common with other writers, in this paper I deal mainly with pay and employment reform in “general civilian government employment”. This comprises employees of both central and local government (including provincial administrations, local authorities and so on). It includes specialist categories of staff like teachers and health workers. But I shall also include some material in relation to other categories of staff. In terms of Figure 1, these are principally employees of state-owned enterprises and budget-dependent agencies, and members of the armed forces.

### *Calculating the size and cost of the civil service*

“There is no more hazardous cross-country comparison than in the area of civil service employment and wages,” say Schiavo-Campo et al. (1997:1), and their caution is echoed by Abed et al. (1998), and Lienert and Modi (1997). Schiavo-Campo et al. point to formidable methodological difficulties, which include:

- the unreliability of statistics in many countries;
- different methods for calculating the size and composition of the public service in different countries (so that, for example, teachers may or may not be included in the total of central government employees); and

- difficulties in calculating the total value of remuneration, since benefits-in-kind may or may not be included in figures for total remuneration.

Clearly it would be ideal to have better, standardized data. However, it should be recognized that this would require a massive harmonization exercise, entailing, among other things, changes in public accounting methods and improvements in the collection of basic statistics. For the foreseeable future we will be obliged to make the best of unsatisfactory data.

### ***Government employment in the mid-1990s***

Bearing the above provisos in mind, Table 1 lists summary statistics for relevant regions (and OECD countries, for comparative purposes), using data usually not earlier than 1994.

**Table 1: Government employment, early 1990s**

<b>Region</b>	<b>GCGE as % of population</b>	<b>GCGE as % of total employment</b>	<b>Govt. manufacturing wages</b>	<b>Wages as % of GDP</b>	<b>Wages as % of govt. spending*</b>	<b>Avg. govt. wage: GDP per capita</b>
Sub-Saharan Africa	2.0	6.6	2.0	6.7	35.3**	5.7
Asia	2.6	6.3	1.8	4.7	22.4	3.0
Eastern Europe and former USSR	6.9	16.0	0.6	3.8	15.1	1.3
Latin America and Caribbean	3.0	8.9	1.5	4.9	27.1	2.5
Middle East and North Africa	3.9	17.5	1.0	9.8	34.8	3.4
OECD	7.7	17.2	1.6	4.5	12.2	1.6

Sources: Schiavo-Campo et al., 1997; \*World Bank, 1997; \*\*Lienert and Modi, 1997. Notes: GCGE is "general civilian government employment", and includes all public employees except employees of state-owned enterprises and the armed forces. Country groupings are those used by the World Bank. OECD countries are generally excluded, with these exceptions: Mexico is included in Latin America and the Caribbean; South Korea is included in Asia. Asia comprises the Indian subcontinent, Southeast Asia and the Pacific. Middle East and North Africa are selected countries where the World Bank is active. All averages are unweighted.

### ***Changes in government employment***

The difficulties of making cross-country comparisons are compounded with longitudinal comparisons. The only reliable source for any earlier period is Heller and Tait (1983). It has a narrower base (of 45–50 developing countries only, excluding the Middle East and North Africa, and also Eastern Europe and the USSR), and a somewhat different method of calculation. As a result, it is only possible to compare central government employment and wages.

**Table 2: Changes in central government employment, early 1980s and early 1990s**

<b>Region</b>	<b>Central government employees as % of population</b>		<b>Wage bill as % of GDP</b>		<b>Average government wage: GDP per capita</b>	
	<b>Early 1980s</b>	<b>Early 1990s</b>	<b>Early 1980s</b>	<b>Early 1990s</b>	<b>Early 1980s</b>	<b>Early 1990s</b>
Sub-Saharan Africa	1.8	1.1	10.8	7.9	6.1	4.8
Asia	2.6	1.1	7.5	4.9	2.9	3.8
Latin America and Caribbean	2.4	1.5	7.3	4.7	2.9	2.3
OECD	2.9	1.9	5.5	4.4	1.7	1.6
<b>Average</b>	<b>2.5</b>	<b>1.5</b>	<b>7.7</b>	<b>5.4</b>	<b>3.5</b>	<b>3.2</b>

Source: Schiavo-Campo et al., 1997, incorporating Heller and Tait, 1983. Notes: Data for early 1990s are limited to the Heller and Tait sample and thus differ from those shown in Table 1 above. In Latin America and the Caribbean, and also to some extent in Asia,

reduction in central government employment was offset by growth in local government. It was particularly in Africa that total government employment fell both relative to population and in real terms.

A further relevant source of data is the IMF's review of the fiscal reform experience of 36 developing and transition countries that undertook macroeconomic and structural adjustment using IMF structural adjustment facilities between 1985 and 1995 (Abed et al., 1998). They compare figures from the beginning of the reform programme with the latest available figures. They record an average drop of 0.44 per cent in the number of public servants and an average rise of 3.29 per cent in the size of the wage bill. Again there are difficulties with these figures: for the most part, they relate only to central government employees, and it is possible that pushing some spending off-budget means that the figures quoted overstate the actual reductions. Moreover, average figures disguise huge variations between countries. In many countries, reductions in the wage bill have coincided with reductions in the value of real wages.

### The overall trend

In general, allowing for the admittedly unsatisfactory nature of the data and for wide variations between countries, there is an overall downward trend in the size and cost of the central civil service, and there is no evidence that the decline has bottomed out. Schiavo-Campo et al. report that sub-Saharan Africa makes a very large contribution to this reduction, while elsewhere the reduction is partly (in the case of Asia) or even wholly (in the case of Latin America and the Caribbean) offset by an increase in local government employment. Relative to per capita gross domestic product (GDP), central government wages have fallen, most dramatically in Africa. Wages have risen in Asia, but this is mainly attributable to India, where civil servants' wages rose after 1986.

What differences can be observed between regions that are not captured in the above statistical data? We must be cautious, since there is perhaps as much variation within as between regions. This can be illustrated by comparing developments in Uganda and its neighbour, Kenya. In Uganda, government wages rose substantially as a proportion of GDP; in Kenya, by contrast, they fell somewhat. However, some generalizations may be possible (and here I follow Schiavo-Campo et al.'s analysis). Reform in Africa has by and large been limited to job reduction—improving the quality of administration remains to be addressed. In South Asia, there is scope for considerable job reduction, accompanied by deregulation and the depoliticization of employment. In the former communist countries of Eastern Europe, by contrast, there is a need to build up a central civil service that historically has been relatively small, while at the same time making overdue reforms to the public enterprise sector that will almost certainly have the effect of reducing employment considerably. Finally, while there has been a trend toward decentralization in Latin America and the Caribbean, it is uncertain whether this has had a real impact on services below the elite level, especially where the smaller countries in the region are concerned. There are also considerable differences between countries.

Thus there are substantial differences between regions. Differences between individual countries are even greater. The number of employees dropped by 44 per cent in Uganda, but rose by 59 per cent in Sri Lanka. In Uganda again, across-the-board pay rises of 43, 85 and 37 per cent in

1991/92, 1992/93 and 1993/94 respectively (Government of Uganda, 1994), financed partly by the drop in numbers, did much to restore pay to previous levels. However, in Tanzania, Uganda's East African neighbour, pay continued to stagnate. It follows that attention should be given both to countries that have purposefully made dramatic changes in the size and cost of their public payrolls, and to those where there has been a deterioration in the position.

### ***The "correct" size?***

It is perhaps only by adopting an *a priori* position on the role of the state that one can generalize about the size and cost of the public payroll. Those who adopt the minimalist view with which the World Bank and IMF have sometimes appeared willing to identify themselves will be satisfied only by a state that confines itself to basic law and order functions (not less: minimalists are not anarchists). Since the opposite, "maximalist" view is not presently espoused by any government or expert, others—including some within the Bretton Woods institutions (for example, Schiavo-Campo et al., 1997)—are likely to feel that the "correct" size and cost of the government payroll will be contingent on the functions of the state in particular countries, and the economic, political and social context in which the state operates. This still leaves plenty of room for arguments that the payroll should be smaller in particular cases (or larger, for that matter: see Reddy and Pereira, 1998), but perhaps not for the sweeping generalizations advanced in the 1980s and early 1990s.

## **Pay and Employment Reform: How It Has Happened**

### ***Reform instruments***

This section reviews the techniques that governments have used to reform pay and employment. I begin by reviewing some issues to do with the process of reform, before going on to address the content of reform.

### ***The reform process***

Process issues, including the need for prior analysis, phasing, sequencing and so on, are not unique to pay and employment reform, but they have endangered reform when left unattended. One reason for this is that an exclusively content-driven approach tends to reduce the ownership and commitment of key stakeholders, thus reducing the size of the reform constituency.

### **Diagnosis**

Stevens (1994b) describes how baseline data on the size and cost of the civil service, and the payment of civil servants, were obtained at the beginning of the reform programme in Tanzania. The analysis shows how an increase in the number of civil servants far outstripped the capacity of government to pay for them, as GDP rose only sluggishly, with the inevitable result that the increase in the number of jobs was at the expense of individual civil servants' wages.

Other, more qualitative diagnostic data have also had a bearing on the design of reform. In Zambia, a review of legal provisions showed that implementing a proposed retrenchment package, under which retirement benefits would have been paid only on reaching the normal retirement age rather than on the date of retrenchment, would have required a change in legislation (Coopers and Lybrand, 1995). In Nepal, a consultation exercise conducted with internal clients of the Public Service Commission (PSC) revealed a strong preference for a centralized model of staff management: clients had greater confidence in the integrity of the PSC than in that of their own departments and agencies (McCourt, 1998c). Such data have included some knowledge of recent reform history. In Uganda, for instance, natural sensitivity to retrenchment was heightened by the painful memory of the first round of retrenchments in the early 1990s, when staff were dismissed without compensation on the basis of nothing more than a poor rating in an annual confidential report (Langseth and Mugaju, 1994).

#### Design of reform

Phasing, sequencing and co-ordination had a bearing on the effectiveness of reform. A particular problem was co-ordination between ministries of finance and public service (or their equivalents). In some African countries (Ghana is an example) the latter has been accused by the former of being a “Trojan horse” inside government, a kind of informal trade union representing the interests of senior civil servants, particularly senior civil servants (Corkery and Land, 1996).

Uganda is a good example of this. When the National Resistance Movement under Yoweri Museveni took power in 1986, it found a public administration reduced to penury through lawlessness, corruption and mismanagement. Its primary reform mechanism was the Public Service Review and Reorganization Commission, which submitted a report that included 255 recommendations. Implementation of the report was devolved to the Implementation and Monitoring Board—which took operational decisions about rightsizing—and monitoring was provided by the Civil Service Reform Co-ordination Committee, made up of directors-general of departments. Despite this attention to the machinery of reform, it was still possible to have a retrenchment team in the Ministry of Public Service working toward job reductions while their colleagues on the other side of the building were carrying out a rolling programme of restructuring reviews whose net result was to recommend a staff increase (Government of Uganda, 1994).

#### ***Reform by numbers***

Many reforming countries set numerical targets at the beginning of reform: Ghana’s projected annual reductions of 12,000 staff are typical in this respect. There is a well-established methodology for this approach which is outlined by Nunberg (1994), who presents it as a series of steps in ascending order of political difficulty. They are set out in the list below, with a few additional measures not covered by Nunberg, and are followed by a brief selective commentary.

- Measures to avoid redundancy:
  - human resource planning
  - job flexibility

- retraining
- redundancy procedures
- *ad hoc* measures
- Remove ghosts
- Book transfers
- Delete empty posts
- Enforce retirement ages
- Introduce part-time and flexible work schedules
- Appoint new staff on temporary contracts
- Natural wastage/recruitment freezes
- Suspend automatic advancement
- Redeployment
- Voluntary redundancy
- Privatization/contracting out
- Freeze salaries<sup>1</sup>
- Compulsory redundancy

### Measures to avoid redundancy

Systematic approaches to avoiding redundancy, a mainstay of personnel practice in industrialized countries (McCourt, 1998a), have not been widely used. In developing countries, the human resource planning function is often weak, making an orderly reduction in jobs difficult to achieve. Governments also took some *ad hoc* measures in order to forestall redundancies, especially in Eastern Europe. Five million workers in Russia had their hours cut in 1994 and an additional 7.4 million were placed on involuntary leave. In fact, in that year only 40 per cent of Russian workers were paid in full and on time (Klugman and Braithwaite, 1998).

### Identifying ghost workers

This has been a major preoccupation of African governments—one official involved in a “ghost-hunting” expedition in Malawi even reported finding an entire “ghost school” with an impressively complete complement of head teacher, teachers and other staff and lacking only a basis in reality. The scale of the problem can be substantial. Ghana eliminated 11,000 ghosts in 1987/88; by 1997 Uganda had identified no fewer than 40,000 (McCourt, 1998a).

### Book transfers

These have also accounted for some ostensible reductions. For example, a significant proportion of the reductions in Uganda were achieved through transfers, such as setting up the Uganda Revenue Authority, which removed a large number of staff from the books of traditional public service.

### Deleting empty posts

This has had the effect of removing posts that may have been vacant for some time but are still listed in the staffing “establishment”.

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<sup>1</sup> Strictly speaking, “suspend automatic advancement” and “freeze salaries” are pay rather than employment reform measures. They are included to complete the list of steps that governments can take to reduce staffing costs.



### Enforcing retirement ages

This has also made a contribution to numbers reduction. In Tanzania, attempts by local government officers to claim that they were below the official retirement age were so widespread that government felt obliged to ban officers from producing affidavits for that purpose.

### Voluntary redundancy

This has been perhaps the most widely used—but also the most unsatisfactory—job reduction method. Although in theory VR should be targeted at staff whose jobs or skills are redundant, in practice the staff opting to leave are often the most needed, as in Sri Lanka (Hilderbrand and Grindle, 1995). Voluntary (and compulsory) redundancy have also been the largest factor in the cost of reform, which is discussed below.

### Compulsory redundancy

Although there is reliable evidence for only certain countries, it appears that compulsory redundancy (CR) has accounted for only a modest proportion of job reductions in many countries, contrary to the popular image. In Uganda, only 14,000 of 160,000 job reductions came through CR. Even several years after the fall of the Berlin Wall, in the transition economies of Eastern Europe, public employers were still tending to take a soft line on redundancy, although overall unemployment had definitely increased.

One difficulty in this context was that governments did not always distinguish correctly between CR and disciplinary dismissal. In Ghana, Tanzania and Uganda, many job losses fell into the latter category, as governments removed people identified as incompetent or sometimes, more colourfully, as “drunkards”. Senior officials in Uganda admitted that the quality of information on which these dismissals were based was weak, leading to unfairness. Staff dismissed in this way are likely to be stigmatized as “lemons”, casting a blight on their re-employment prospects. There is evidence that individuals in industrialized countries have needed up to five years to eradicate such a reputation (Turnbull and Wass, 1997).

### Privatization and contracting out

Privatization and contracting in this context offers the politician the best of both worlds: a substantial reduction in the number of public jobs is achieved while the service remains intact. Privatization accounted for the lion’s share of job reductions in the United Kingdom in the 1980s; contracting out was the largest single factor in job reduction there in the 1990s (HMSO, 1996). However, there are also political difficulties: privatization and contracting out will almost certainly be opposed by the staff of the public agencies affected, who may mobilize opposition through trade unions. Such measures may also be opposed by the public at large, who fear that they will result in cuts in services, lower quality services, or (higher) charges for the same services.

There are sometimes legal restrictions affecting the transfer of activities from the public to the private sector. In the member countries of the European Union, regulations often require a private sector contractor who has won the contract to supply a service previously provided by a public agency to employ the agency’s staff on their existing terms and conditions of employ-

ment. In the European Union, Zimbabwe's contracting out of rubbish collection would almost certainly be covered by those restrictions. Transition countries of Eastern Europe will become subject to them if their applications to join the European Union are successful.

### **Reforming pay**

Governments have identified five principal problems with pay, which they have tackled in different ways. They are listed in Table 3 below.

**Table 3: Pay problems and solutions**

<b>Problem</b>	<b>How the problem has been tackled</b>
Inadequate pay across the board	Across-the-board pay rises
Opaque remuneration systems	Consolidation of remuneration
Unclear link between pay and responsibilities	Job evaluation
Unclear link between pay and performance	Performance-related pay
Insufficient pay to retain employees with scarce skills	Pay decompression and pay differentials

#### Across-the-board pay rises

With evidence of a link between low pay on one hand and the incidence of corruption (World Bank, 1997) and "moonlighting" (van der Gaag et al., 1989) on the other, many governments have set the objective of increasing the pay of their public servants. Their success in doing so, however, has been uneven. As shown earlier, pay fell somewhat as a proportion of GDP per capita in developing countries as a whole. Real wages fell over the reform period in nine of the 18 developing countries studied by Abed et al. (1998) on behalf of the IMF, although there were significant rises in a few countries, notably Bolivia and Uganda. Among transition countries in Eastern Europe, there have been numerous problems with both the value and the payment of wages. Wage freezes have sometimes been used to avert redundancies, as in the Czech Republic's coal mining industry (Pavlinek, 1998). Budgetary difficulties have also led to wage arrears, which in 1997 were estimated to be running at an average of 122 per cent of the monthly pay bill in four industrial sectors in Russia (Clarke, 1998). Thus the aspirations of governments to improve the pay of their employees have not been realized in any consistent way.

#### Consolidation of remuneration

Especially in developing countries, housing, transport and other benefits have sometimes been worth as much as the nominal wage. The pay compression ratio between the highest- and the lowest-paid staff of 1:6.8 in Uganda changed to 1:100 after non-monetary allowances and benefits were included (Government of Uganda, 1994). The opaqueness of remuneration in such countries is exacerbated by the difficulty of calculating some of its elements, notably the provision of free housing. There has thus been a move to consolidate and monetize the remuneration package in some countries, replacing non-monetary benefits such as housing with a single, somewhat increased wage.

#### Linking pay and responsibilities

Some governments have taken steps to put the grading and relative pay of their staff on a more "rational" footing. This has often been done through the technique of job evaluation, defined as

“the determination of the relative worth of jobs as a basis for the payment of differential wages and salaries.” (Smith 1983:69)

In many countries pay is based largely on qualifications and seniority, rather than on responsibility. Job evaluation aims to correct this imbalance, giving a more justifiable basis for pay differentials. Job evaluation can also help avoid gender discrimination in pay. Job evaluation has been used in countries like Lesotho, South Africa and Tanzania, normally with donor-funded consultancy support. The technical nature of job evaluation can cause problems: a review of one such scheme in South Africa found that while it was effective in its own terms, the technical nature of the scheme created problems of sustainability once the consultants had withdrawn.

#### Linking pay and performance

Among developing countries, Malaysia has probably gone furthest in linking pay to performance. Performance-related pay (PRP) was introduced in Malaysia in 1991 – as a major feature of the New Remuneration System – in an attempt to achieve a “shift in the work culture” of civil servants. The government had launched a national development policy that aimed to distribute wealth through economic growth, and had identified a number of strategic needs for the civil service in terms of responsiveness, flexibility, innovation and ethical behaviour. PRP was supposed to support the necessary changes in behaviour.

The new approach had strong political backing: Prime Minister Mahathir Mohammad chaired the committee that produced the system. PRP awards are made following the annual performance appraisal interview, and are based on a manager’s assessment of performance against objectives (called “work targets” in the Malaysian system) set jointly by manager and employee, in the context of overall departmental objectives.

Larger pay increases are given to employees that receive high performance ratings. Each department has a quota for how many employees can enjoy accelerated salary progression: a manager’s rating of an employee as outstanding may not be endorsed if the department’s quota has been exceeded (Government of Malaysia, 1991; Hamid, 1995).

But relatively few countries outside Malaysia have made the link between pay and performance, though rather more have floated the idea. This is because of problems of capacity and fairness. PRP decisions are only as good as the judgements of staff performance ratings (normally deriving from some form of performance appraisal system) on which they are based, and such ratings are often inaccurate or biased, especially in countries where nepotism prevails. It is notoriously difficult to quantify the performance of public servants in the way that such a system requires – even the World Bank as an employer seems to find it hard (Reid, 1997). In Malaysia, the civil servants’ union is predictably hostile, but privately so too are some senior officials (McCourt, 1998a).

#### Decompressing and differentiating pay

Public sector pay policies in many developing countries followed a common trajectory after independence. Adopting an egalitarian ethos, many took steps to reduce the differential be-

tween the highest paid (who, in the colonial period, were usually expatriates) and lowest paid. Zambia is a typical example: the “decompression ratio” there decreased from 17:1 to 3.7:1 between 1971 and 1986 (Lindauer, 1994). From the early 1980s onward, some governments acted to reverse that trend. Thus in Ghana the decompression ratio changed from 2.2:1 in 1984 to 10:1 in 1991 (Burton et al., 1993), and in 1993 the government of Tanzania set the target of raising its compression ratio from 5.74:1 to 12:1 (Stevens, 1994b).

Transition countries in Eastern Europe have experienced “one of the biggest and fastest increases in inequality ever recorded” (Milanovic, 1998). However, here it is the external comparison between public and private wages rather than the internal compression ratio between the highest and the lowest wages paid within the public sector that is significant.

Clearly setting the “right” compression ratio is a subjective judgement. Information about wage movements in the external labour market would make it less arbitrary, but such information is not often available in developing countries. The extent of wage compression is in any case hard to determine, since the allowances which tend to be paid disproportionately to senior officials qualify the picture, as already shown.

Another form of pay separation is paying more to staff – not necessarily the most senior – who have scarce skills, such as doctors and accountants. It is possible to use job evaluation (see above) to bring this about, or to do it through pay decentralization. Pay decentralization has not been widely attempted in developing countries, partly because of the heavy load that it places on fragile administrative capacity (Nunberg, 1995). Moreover, and despite all the above, public opinion in at least some countries stubbornly continues to favour narrowing rather than widening the earnings gap between senior and other staff (Fosh, 1978; Robinson, 1990).

### ***Other HRM reforms***

While pay and employment reforms have occupied centre stage in the unfolding drama of reform, other human resource management (HRM) reforms have been carried out. Governments continue to train their staff, often with donor support: the European Union at the time of writing was supporting substantial training programmes aimed at civil servants in South Africa and Swaziland, to give one example.

#### **Merit-based selection**

Another area of activity has been the move toward merit-based selection. The importance of this was highlighted in the *World Development Report 1997* (World Bank, 1997), in which evidence was presented of a link between selection and the integrity of government administration. This has been facilitated by the introduction in some countries of new technology for streamlining the administration of selection: India’s state and union PSCs have introduced optical mark readers; Malaysia’s telephone service provides dial-up information on interview results and job designations. Other countries have acted to bolster the independence of the government agency responsible for recruitment. At the time of writing, Sri Lanka was engaged in strengthening its PSC, which a previous reform in 1978 had made answerable to the Cabinet, impairing the

integrity of its appointments. Nepal similarly was concerned to safeguard the status of its PSC as a constitutional body, keeping it at arm's length from politicians' operational control.

### ***The cost of reform***

Reform has usually had the simple aim of saving money – albeit this has often been one aim among others. Thus it is ironic that reform has sometimes worked out to be very expensive. An employer who opts for VR as a way of reducing jobs must offer a large enough compensation package to persuade staff to volunteer. As a result, payment of redundancy benefits took up no less than 2 per cent of government expenditure in the first five years of the VR scheme in Ghana (Younger, 1996). (This problem is not confined to developing countries: the United Kingdom spent roughly \$12.8 billion between 1979 and 1992 on making coal miners redundant (Wass, 1996).)

### **Personnel substitution**

Moreover, additional expenditure has sometimes been incurred even after VR, in other ways. The first of these is the return of staff who have “taken the package” as consultants or in some other guise. This has been observed in Malaysia, South Africa, Sri Lanka (McCourt, 1998e), and also in the United Kingdom, where Treasury officials have labelled it “manpower substitution”. Solving this problem requires a drastic simplification of departmental budgets, thus removing the incentive to move spending on staffing from one budget head to another. However, since the relationship between this problem and the structure of the budget is not widely appreciated in developing countries, such a simplification appears not to have been widely attempted.

### **Other cost problems**

There are two other reasons why job reduction has not always gone hand-in-hand with cost reduction. First, governments have sometimes continued to recruit even while they have been laying off staff. This can be a problem of co-ordination between central government departments; it can also be because many appointments, including temporary and part-time appointments, are delegated to lower levels and evade central controls. Second, an ostensible reduction in the number of civil servants has sometimes disguised the fact that they are merely staff who have been restructured out of the central civil service into some other agency, as in the case of the suddenly ubiquitous, freestanding Revenue Authorities of sub-Saharan Africa (Mozambique and Zambia among others).

Pay reform has made its own contribution to the cost of reform. While some pay increases have been financed from savings generated by job cuts, pay rises have often come, partly or wholly, from general government expenditure, as in Malaysia, where the government recognized explicitly that pay reform would add substantially to the pay bill (Government of Malaysia, 1991). It is unclear whether such rises are to be praised – as the reward for enduring the pain of difficult macroeconomic reform – or criticized for frustrating the cost reduction goal of employment reform.

## **Pay and Employment Reform in OECD Countries**

### ***Job reduction***

It is instructive to compare the experience of developing and transition countries with that of industrialized countries. There are certainly similarities. Staff retrenchment (“downsizing”) programmes were carried out between 1987 and 1992 in the public sectors of 22 of the 27 member countries of the OECD, making it by some distance their most widespread human resource initiative (OECD, 1994). Interestingly, the OECD experience, especially in the private sector, has had mixed results.

- Downsizing has not led to consistent improvements: following downsizing, financial performance tended to worsen, and productivity and cost-cutting targets were often not met (Bennett, 1991; De Meuse et al., 1994; Henkoff, 1990).
- Disappointing outcomes have been explained by failure to take a strategic, incremental approach and to pay attention to prior diagnosis, and by distortion arising from inappropriate reasons for downsizing, including ideological reasons.
- Worker participation in downsizing decisions has been associated with positive outcomes (Cameron, 1994).
- Damage to worker trust and morale (Henkoff, 1990; Peak, 1996) has to some extent been offset by assistance programmes for retrenched workers.

### ***Other HRM reforms***

A variety of other HRM reforms have also been carried out. While these vary from country to country, the following general trends can be identified (OECD, 1996):

- decentralizing responsibility for staff management, including to the line manager;
- increasing emphasis on training and development, including skills needed to manage staff in a decentralized system; and
- increasing use of performance management and performance appraisal techniques.

However, there are general deficiencies in public staff management in OECD countries, notably a failure to take a strategic approach to the management of staff in the context of the overall objectives of public agencies (OECD, 1996).

## **Reform and the Copenhagen Declaration**

### ***Key issues***

We now turn, finally, to consideration of aspects of reform that are particularly relevant to the aims of the Copenhagen Declaration.

Pay and employment reform is not mentioned explicitly in the Copenhagen Declaration or Programme of Action. However, on a number of points the Copenhagen documents have implications for the conduct of reform in this area. They are:

- Commitment 3a, which commits governments to respecting workers' rights and ensuring their participation in work;
- Commitment 3i, which commits governments to promoting respect for International Labour Organization conventions, including the right to bargain collectively;
- Commitment 5j, which commits governments to ensuring that women participate fully in employment; and
- Commitment 8b, which commits governments to reviewing the impact of structural adjustment on social development.

In addition, there are a number of implications for reform in Chapter 3 of the Programme of Action, which deals with employment. These are:

- paragraph 45, which calls on employers to safeguard gender equality, equal opportunity and non-discrimination;
- paragraph 49, which emphasizes minimizing the negative impact on jobs of measures for macroeconomic stability; and, in particular,
- paragraph 49g, establishing appropriate social safety mechanisms to minimize the adverse effects of structural adjustment (and other) reform programmes on the workforce ... and for those who lose their jobs, creating conditions for their re-entry through, *inter alia*, continuing education and retraining.

Perhaps most importantly, it is an implication of the Copenhagen Declaration as a whole that the impact of pay and employment reform on poverty, the social fabric and the creation of productive jobs should be addressed.

These implications can be summarized as follows and are discussed below:

- Workers or their representatives should be able to participate, including through collective bargaining, in the design and conduct of reform programmes (Commitment 3a and 3i).
- Reform policies should be designed so as to minimize the loss of productive jobs (Programme of Action, paragraph 49).
- Reform decisions should not discriminate against women or any other group in the workforce (Commitment 5j; Programme of Action, paragraph 45); and governments should review the effects of reform on displaced workers, especially those who are members of disadvantaged groups (Commitment 8b).
- There should be social safety mechanisms for those who lose their jobs as a result of reform (Programme of Action, paragraph 49g).
- Reform should contribute to the elimination of poverty, or at least not exacerbate existing poverty.

### ***Worker participation in reform***

References to the participation of workers in the design and conduct of reform are conspicuous in their absence from the reform literature, which has an exclusively "unitarist" orientation (Fox, 1974), that is, an orientation to the needs of managers rather than workers. Perhaps the only information on the actual practice of governments comes from my research that touched on the involvement of worker representatives in reform in Ghana, Malaysia, South Africa, Sri Lanka and Uganda (McCourt, 1997 and 1998a).

Ghana's experience is especially instructive. It was one of the first countries to undergo structural adjustment, following a period from the late 1970s to 1981 when the economy was in disarray and real incomes dropped substantially. An economic development programme was launched in 1983 with employment reform as a major component. Between 1970 and 1982, civil service numbers had grown by 14 per cent, five times the annual rate of economic growth.

Civil servants in Ghana are represented by the CSA. This is not a union in the strictest sense of the word, and in fact is not a member of the Ghanaian Trades Union Congress. However, the CSA was involved in decisions about rightsizing from the beginning, through its membership on the key steering committee, the Redeployment Management Committee (RMC). Far from putting spokes in the wheel, the CSA consented to decisions that might be seen as having an adverse impact on its members. However, membership in the RMC enabled the CSA to argue for a package of measures to alleviate the hardship caused by retrenchment (McCourt, 1997 and 1998a).

Trade unions were also involved in decisions about reform in Malaysia and South Africa. In Sri Lanka and Uganda, unions had no involvement, despite their lobbying—and in Sri Lanka there was even some hostility in official circles to the idea that they might be. It is striking that Ghana, where there was participation, did manage to implement a package of measures for retrenchees while Uganda, where there was no participation, failed to do so.

### ***Minimizing productive job loss***

To the extent that reform programmes have been driven mainly by fiscal concerns, they have cut a swathe through productive and unproductive jobs alike. However, most governments have taken steps to reduce damage, for instance by excluding jobs in service sectors like education and health. The management review approach taken in recent years by countries like Uganda—where individual jobs and families of jobs have been reviewed to see whether they still make a worthwhile contribution to the public service—is a suitable way of ensuring that reform meets the requirement of paragraph 49 of the Programme of Action.

### ***Reform and disadvantaged groups***

In principle, reform could have a differential impact between men and women, ethnic groups, or regions of a country. Such differential impact has not been much studied, and has sometimes been discounted even where it has been observed. Thus Alderman et al. note that operating the “last in, first out” (LIFO) rule for redundancy in Ghana meant that women employees were likelier to be retrenched because they had only joined the civil service in large numbers in recent years, but also state that LIFO is “widely perceived as a fair rule in layoff decisions” (1994:218). In the United Kingdom, however, LIFO has been found to have led to unlawful sex discrimination when it was used to make redundancy decisions in a Post Office sorting bureau; again, this was a workplace that women had only recently joined, and so they were disproportionately affected.



### Gender impact

In general, the gender division of labour characterizing most if not all public workforces, where women and men work disproportionately in jobs that reflect traditional gender roles (such as childcare for women and heavy manufacturing for men), creates the likelihood of disparity where job losses are not uniformly spread. Thus the decline of public childcare provision in Eastern Europe has had a greater impact on women, whereas the shift from heavy manufacturing to consumer goods industries may have a greater impact on men (Johnson, 1995). It is conceivable that men could be disproportionately affected where governments excluded priority services like education and health—which usually employ relatively many women—from employment reform, but I have no data on this. It is possible that impacts on men and on women could cancel each other out: in 1995 unemployment for women in Bulgaria (16 per cent) was virtually the same as for men (15.5 per cent) (European Community, 1996).

But there is some worrying evidence of negative impact on women. In Russia, Johnson (1995) found women to be more likely to be unemployed following redundancy (39 per cent after versus 12 per cent before), and Standing (1994) found that factories where over three quarters of the workforce were women were more likely to make redundancies. Standing also found that 25 per cent of managements expressed a preference for recruiting male workers, although he points out, somewhat unfashionably, that there was a good deal less gender bias in Russia in and after the Soviet period than in many other countries.

Gender bias in reform in developing countries has not been studied much. However, an ethnographic study carried out in Ghana (Brydon and Legge, 1996) found evidence of bias against women in selection for redundancy in Ghana's civil service reform programme. Women's disadvantage was compounded by the difficulty they had in getting formal resettlement loans (only 11 per cent of female applicants as against 26 per cent of male applicants), and by being confined to retraining programmes in stereotypically "female" occupations, such as hairdressing. This was despite government efforts to improve the position of women by setting up a programme called Enhance the Opportunities for Women in Development.

### Regional and ethnic bias

There may also be regional bias. The concept of urban bias is a familiar one in the development literature (Lipton, 1977), and so it is perhaps not surprising that Brydon and Legge (1996) found evidence of it in Ghana, where resettlement assistance tended to be concentrated in or near urban centres.

Fear of differential regional impact influenced South Africa's reform strategy. Widespread inefficiency and corruption in the staffing of the former "homeland" administrations, concentrated in rural and highly disadvantaged areas—which the African National Congress-led government inherited from its Nationalist predecessor—created the potential for disproportionate impact. Ghost workers had proliferated, and there were many staff whose jobs disappeared when the former homelands were merged with former provinces to create the new provincial structure.

Recognizing this has inhibited the government from embarking on thorough reform. The former Transkei homeland—whose chief town, Umtata, lost its capital status when the Transkei was subsumed into the new Eastern Cape province—already feels neglected by government. With local leader and former homeland Chief Minister Bantu Holomisa organizing an opposition party, the government seemed unlikely to make substantial reforms before the general election in 1999.

Ethnic bias in reform is also likely, but unfortunately there is little information available on this aspect of disadvantage (though Johnson (1995) found the Turkish minority in former East Germany to be more likely to be unemployed).

#### **Political bias**

One further form of bias perhaps not envisaged in the Copenhagen Declaration is political bias. Of course there was a deliberate bias against Communist Party officials in transition countries such as the former Czechoslovakia and East Germany, buttressed by large sections of the public (Ardagh, 1996). An ironic consequence of the introduction of multiparty democracy in some countries has been a purging or sidelining of public servants identified with an ousted party when power changes hands. In Nepal this could go right down to the level of the head of a university campus department (McCourt, 1998d).

#### **Disadvantaged groups: Conclusion**

In short, the division of labour in the public workforce along gender, regional and ethnic lines, and possibly the issue of perceived political allegiances, create the likelihood of disproportionate impact. In line with Commitment 8b of the Copenhagen Declaration, it is desirable that this possibility should be reviewed more thoroughly than it has been up to now.

#### ***Social safety mechanisms***

Not everyone agrees that government has an obligation to provide a safety mechanism for displaced workers. The authors of one study of retrenched civil servants in Guinea argued that the latter's salaries represented a "rent" that they had done little to earn, so they should not expect much in the way of compensation when they were retrenched (Mills and Sahn, 1996). There is also evidence from Ghana that the hardship caused by displacement was less severe than feared (Younger, 1996). In a more populist vein, President Museveni of Uganda made a series of speeches after coming to power in which he criticized the shortcomings of the country's civil servants. Not by coincidence, in the first round of retrenchment those staff were simply dismissed without compensation.

Nonetheless, governments have increasingly recognized the need to make provision for staff who are retrenched. They have done so either because they feel a responsibility for their welfare, or because they want to minimize political damage. In the past donors have taken the view that severance packages should be the responsibility of the government itself (the World Bank's own rules prohibit it from contributing), but more recently donors have been prepared to make a contribution to their cost, or even to underwrite the entire cost.

### Severance packages: The amount

In order to mitigate financial hardship, employers often offer a severance package. This can take several forms:

- a minimum, if there is one, which the country's law requires;
- a package previously agreed between the government as employer and its staff (and which may, as in Zambia, have the force of law); or
- an enhanced package designed to offset hardship or to make voluntary redundancy attractive.

Packages have varied in generosity. Below are some examples (taken from McCourt, 1998b; Nunberg, 1994):

- Argentina
  - (on average) 75 per cent of basic salary for six months
  - service-related severance payment (averaging \$3,000), paid in six instalments
- Ghana
  - severance payment of four months' salary
  - end-of-service payment of two months' salary for each year of uninterrupted service
  - pension entitlement frozen until normal retirement date (no "extra years" given)
- Laos
  - one year's salary
- Uganda
  - standard "safety net" figure of \$1,000
  - three months' salary for each year of service up to a maximum of 20 years
  - workers over 45 years of age who had served at least 10 years received their pension immediately
  - "repatriation" allowance to help retrenched move back to their home region

### Severance packages: The style

There is clear evidence that it is preferable to include a substantial lump sum in the package. Studies of investment behaviour show that people tend to invest lump sums, contrary to popular belief, but that they regard staggered monthly payments as an extension of their salaries. Fewer retrenched civil servants in Guinea, where the package was staggered, invested their severance payments than in Ghana, where there was a substantial lump sum element (Mills and Sahn, 1996; Younger, 1996).

### Winners and losers

The details of the package determine who the winners and losers will be. Uganda paid a "repatriation" package to its retrenched, ostensibly to cover the cost of moving back to their home areas, though few actually did so. This had the effect of favouring retrenched whose original homes were in distant areas, such as Karamoja in northern Uganda. According to a Ugandan trade union representative, this was a very lucrative component of the package.

It may also be desirable to have at least a “flat rate” element in the package (as Uganda did) in order to reduce the problem of the socially regressive impact of retrenchment. The bulk of severance payment spending often goes on a relatively small number of senior civil servants who are more likely to have alternative earning opportunities outside government.

#### Other forms of assistance

It has been argued that while financial severance packages, preferably with a lump sum payment as a major element, have been effective, other forms of assistance such as retraining and business start-up help have not. However, it is possible that local factors have affected the latter. Ghana’s provision of retraining and business start-up help (Government of Ghana, 1987) started a year late, at a point when sensible retrenchees would have already made their own arrangements; Uganda’s never started at all, foundering on the mistaken assumption that banks and the Ministry of Labour would be willing to participate (McCourt, 1998a).

#### Psychological hardship

Moreover, the hardship caused by redundancy is psychological as well as financial. The Ugandan Civil Service Union has fielded many complaints from retrenched staff whose marriages have broken up, who have lost status in their villages and so on as a result of retrenchment (McCourt, 1998a). This, though anecdotal, is in line with industrialized country studies of the effects of unemployment, which show the unemployed having poorer physical and mental health (Argyle, 1989). Thus there is room to argue that more skilful measures would have contributed to the welfare of retrenchees. To give one example, communication with employees was clearly necessary to alleviate anxiety about the threat of retrenchment. Uganda’s first retrenchment exercise, said one official, was “shrouded in secrecy, and the news that they were to be retrenched came as a shock to most retrenchees”. Thus this section reviews some of the non-financial social safety mechanisms governments have adopted, focusing on the experience of Ghana, which had the relatively elaborate social safety net Programme to Mitigate the Social Cost of Adjustment, for which retrenchees, among others, were eligible.

#### Information about retrenchment

The government of Ghana obtained funding from UNDP to mount an information campaign in which mass media were used to inform potential retrenchees. This was partly a reaction to problems experienced in an earlier round of retrenchment, when many retrenchees believed that their severance was only temporary, and that they would be re-employed once government finances were in better shape. It was also an attempt to reassure civil servants that retrenchment would not be used to victimize supporters of the former government.

#### Counselling and guidance

In Ghana, again, the need to provide guidance to retrenchees was recognized by providing counselling and guidance training to 103 Labour Department staff who would be involved in the exercise. In Tanzania, similar training was part of the programme provided for local authority personnel specialists who would be responsible for retrenchment in Tanzanian councils.

### Retraining

In the United Kingdom many employers provide an “outplacement” service, where staff made redundant are placed with other employers to gain work experience. In Ghana, training programmes in such areas as blacksmithing and entrepreneurship were mounted.

### Business start-up help

Ghana subsidized the purchase of business equipment, such as hairdryers for hairdressers and photographic equipment for photographers. The cost of the programme was modest.

### Conclusion: Cosmetic gestures?

It is in providing assistance to retrenchees that there has been the greatest gap between aspirations and reality in the conduct of reform. Retraining and business start-up programmes have been criticized as ineffective. In Ghana and Uganda, as has been shown, and also to some extent in the United Kingdom, that was for the simple reason that they either never actually happened, or happened too late to be of any use. Governments will need to take concerted action if they are to avoid the accusation that their programmes of assistance have been merely a cosmetic exercise aimed at reassuring public opinion rather than at genuinely mitigating hardship. They will also need to bear in mind that programmes should address psychological as well as financial hardship.

### ***Reform as an anti-poverty strategy***

In the context of the Copenhagen Declaration and Programme for Action, it is important to take account of the effect of pay and employment reform initiatives on poverty. Early employment reform policies, in common with the first generation of structural adjustment policies, took little account of their potential for causing hardship. But more recently some governments have addressed that possibility.

Building a poverty element into reform design can be done in two ways:

- by bolting measures designed to prevent or mitigate hardship onto conventional reform policies; or
- by making poverty elimination a central thrust of reform.

In practice, the first of these, which I have already discussed, has been the usual approach. Is it possible to make poverty elimination a central thrust of reform? I have already mentioned that alleviating poverty has not been a central objective of pay and employment reform. But there have been some individual actions, and there are also analogies from reform in other areas, on which I can draw in order to speculate on how poverty alleviation might be integrated into the design of reform. There are perhaps three ways in which this might happen:

- by earmarking savings from reform for capital or personnel expenditure on priority services;
- by reallocating staff to areas of greater need; or
- by improving the living conditions of civil servants.

### Earmarking savings

It is theoretically possible to earmark the savings from employment reform for spending on services that will benefit the poor. The argument was made in a speech by the Minister of Finance in one of South Africa's provincial administrations:

Gauteng wants to cut its public service salary bill to half of its expenditure and wants to retrench public servants to achieve the goal, MEC for Finance Jabu Moleketi told the legislature yesterday.

Mr Moleketi repeated a comment made by President Mandela at the State Opening of Parliament that 'the government is not an employment agency' and said it was necessary to reduce the spending on the public service from 60 per cent of the total R15,07 billion budget to about 50 per cent.

The education department spends 86 per cent of its budget on personnel.

While the budget provided for existing personnel, the current pattern was 'not sustainable in the long term, especially as this squeezes out other spending on items such as capital projects, textbooks and stationery for schools, and medical supplies,' Mr Moleketi said.

'Once a retrenchment tool is in place, we will make use of it to become a more developmental administration,' he said (Pretoria News, 1998).

Similarly, the government of Uganda claims to have used savings from retrenchment to increase the pay of primary teachers in the context of a government commitment, made in 1997, to provide universal free primary education—and primary education is a central plank in an anti-poverty strategy.

However, this attractive approach may not be very realistic, at least in the short term, when the costs of reform are likely to be greater than the savings, as shown earlier. Only when reliable actuarial calculations of the costs of reform have been made, and the payback period for reform has been calculated, can such a strategy be considered.

### Reallocating staff

A second way that reform can assist poverty alleviation is by the reallocation of staff. At the time of writing, the government of Tanzania had embarked, with donor assistance, on a scheme to reallocate teachers to areas where the pupil-teacher ratio was relatively high. There is nothing new about such programmes. Developing countries have been using human resource planning techniques for many years to achieve an even distribution of, for instance, doctors between rural and urban areas (Ojo, 1989). It must be admitted, however, that staff allocation initiatives in developing countries have not always been successful and one cannot be sanguine about the likelihood of them succeeding in future.

### Improving conditions for civil servants

The third way that reform might contribute to poverty alleviation is by raising the income of public servants living in poverty. The new government that took power in Ethiopia inherited a civil service where pay levels had been static for a quarter of a century, so that there was a monthly pay range of \$8 to \$250 against a household absolute poverty line of \$60. The

government has raised pay to a range of \$16 to \$400, with a minimum entry-level salary for front-line basic service providers of about \$35 per month (Adedeji et al., 1995). Among industrialized countries, a large job evaluation exercise in United Kingdom local authorities in the late 1980s had the same intention.

But as shown earlier, the thrust of pay reform in developing countries in recent years has been to “decompress” pay, with the effect of reducing the salary of low-paid staff relative to their senior colleagues. Although salaries in Cameroon are lower now than in 1985, the lowest civil service salary is still three times the official poverty line, below which 50 per cent of the population lives. In short, although greater pay equality remains popular among the public in at least some developing countries, its justification as part of an anti-poverty strategy must be assessed on a case-by-case basis.

### ***Conclusion***

Our admittedly speculative discussion of the link between reform and poverty elimination obliges us to draw a positive and a negative conclusion. The positive conclusion is that measures can be taken to reduce hardship caused by reform (they are discussed in an earlier section of this paper). The negative conclusion is that broader measures may not succeed. The likelihood of generating savings from reform that can be spent on priority services is not great; the history of reallocating staff into areas of greater need has been poor; and increasing pay for low-paid civil servants needs a case-by-case justification. However, this is the area in which there are fewest examples of successful practice, and it is possible that governments may be able to devise innovative and imaginative strategies that will harness reform to the goal of poverty alleviation.

## **Conclusion: An Overall Assessment of Reform**

### ***The outcomes of reform***

As has been shown, the outcomes of reform have been mixed. Job reduction has been dramatic in some countries, non-existent in others; promised pay increases have materialized in some countries, but pay has stagnated or even fallen in real terms in others. As Schiavo-Campo et al. have pointed out, a country-by-country analysis is necessary. But a few generalizations are possible.

### ***The “big picture”***

Overall, it is clear that the curve of civil service numbers that rose steeply up to the early 1980s in developing countries has flattened, if not dipped downward. The vertiginous increases of the 1960s and 1970s are, temporarily at least, a thing of the past. Thus the bleak assessment of failure advanced by some observers (Abed et al., 1998; Nunberg, 1997) may be a little overstated. Elsewhere, while civil service employment did not rise steeply in Eastern Europe—numbers actually fell somewhat in Poland in the latter half of the martial law period—public enterprise reforms are taking or are likely to take large numbers out of the public sector.

But even where the number of jobs is declining, job reduction, as has been shown, is not always synonymous with cost reduction. The costs of redundancy, together with the effects of personnel substitution and other factors previously discussed, mean that the short-term fiscal benefits that common sense might have predicted have often not materialized. In the short term, reform has been successful mainly in stopping the situation from getting any worse. Actual fiscal benefits are most likely to be experienced in the medium to long term at best.

### ***Delinking pay reform***

It is not difficult to argue that pay increases are desirable in many countries. The value of pay has declined dramatically, and low pay has been associated with corruption and low morale. Yet for many governments the state of public finances means that pay increases on the scale necessary to restore the previous value of pay are simply not possible, even after downsizing has reduced the number of employees. Certainly governments need to work toward restoring the value of pay, but it is advisable to pursue pay reform and other employment reforms separately. Delinking them will avoid the danger of the credibility, or even the viability, of other employment reforms being damaged by failure to make progress on pay reform.

### ***Reform and effectiveness***

Reforms have tended to improve the efficiency of government, if only because there are fewer people doing the same work. But whether they have improved its effectiveness, in terms of doing work better, is open to question. Since reforms, especially when sponsored by the Bretton Woods institutions, have often been fiscally rather than performance driven, they have tended to apply to productive and unproductive jobs alike. However, one study that considered this (McCourt, 1998a) found that public agencies in Ghana, Uganda and the United Kingdom—three countries with particularly lengthy experiences of reform—did not feel that they had lost scarce skills. On the contrary, they saw reform as a way of “cutting out dead wood”. However, the return as consultants of many staff who have taken VR in countries like South Africa and Sri Lanka suggests that that has not always been the case.

### ***Reform and hardship***

Unlike in other areas of government reform, such as the removal of food subsidies, hardship caused by pay and employment reform has been serious though not catastrophic. This has been because compulsory redundancies have been on a lower scale than feared. In developing countries, job reductions have been possible without large-scale redundancies through eliminating ghost workers and other measures. In transition countries, however, they have yet to be implemented—even 10 years after the fall of the Berlin Wall—held at bay by pay delays, reductions in working hours and the like. As Russia’s former Deputy Prime Minister Boris Fyodorov commented in 1999, “[u]nemployment is artificially low. People go to the factories, there is no work for them to do and they don’t get paid. We are still sitting on the same industrial dinosaurs we had ten years ago” (Observer, 1999).

Another reason is that governments have in fact taken steps to cushion the blow through the provision of severance and other benefits. Impact on women or other disadvantaged groups has not been disproportionate, but is still a cause for concern. Since job reduction has probably not



bottomed out in most countries, there is a need to remain vigilant to the danger of hardship in the future.

### ***Strategic reform***

What direction should reform take in the future? Many have argued for a “second generation” of reform in developing countries, which have been undertaking reform for 15 years or more. Sometimes the second generation turns out to be the same as the first, only more so (Lienert and Modi, 1997; Nunberg, 1997). Sometimes, though, there are arguments for a more strategic approach, in which pay and employment reform form part of a package of HRM reforms—which would include such elements as more professional recruitment and the introduction of performance management—all in the context of the strategic management of the public service (Hilderbrand and Grindle, 1995; McCourt, 1998e; OECD, 1996; Schiavo-Campo et al., 1997). I have referred to some of the elements of the package in this paper, but activity in relation to them has been overshadowed by job reduction programmes with which, as has been shown, reform as a whole has often been synonymous.

It is the strategic approach that offers the best hope of lasting improvement. What does strategy mean in this context? It means starting from a view about the fundamental tasks of the public service, one covering the extent and nature of the state’s involvement in economic activities and delivery of services. In the light of that view, a review is carried out of the alignment of the existing structure of government with strategic priorities. Review at the level of an individual department or service is a further stage, and the final stage is review at the level of the individual job or family of jobs. Thus pay and employment reform, along with other HRM reforms, derives from this strategic process. Thus also job reduction “falls out” of the strategic process—or job increase: strategy is neutral on this score. It follows from the experience of employment reform, and the need that I have emphasized for case-by-case analysis, that all of this should be done incrementally. This is in keeping with the strategic tradition that derives from Lindblom (1959) and Mintzberg (1989), which emphasizes the importance of just such an incremental, “emergent” approach. (See McCourt, 1998e for an expansion of this “strategic model” of reform.)

### ***Implementing reform***

A factor militating against the somewhat sophisticated approach just outlined is the administrative capacity of governments. One reason why many governments have preferred to set simple numerical targets for reduction in the size of the public workforce is that such targets are relatively easy to manage. Even a relatively sophisticated government like South Africa’s made a deliberate decision not to manage reform through devolving budgets to departments, believing that this would overstrain capacity. There is inevitably a trade-off to be made between a comprehensive, but complex, approach to reform on one hand and a crude, but practicable approach on the other. However, this picture is changing rapidly in some countries, as experience of reform leads to the development of expertise.

***In conclusion***

Pay and employment reform is not an autonomous phenomenon, but a reflection of political priorities, particularly concerning the role of the state. There is perhaps less outright hostility toward the existence of a strong state in the year 2000 than there was 10 years earlier. Changes in political control in influential countries such as Germany, the United Kingdom and the United States play a part here, as do analyses of the importance of *dirigiste* approaches to economic development in East Asia (such as Wade, 1990). It is very unlikely, however, that the clock will be turned back. Even those emphasizing the importance of primary services like health and education are canvassing the possibility of alternative modes of service provision through the private sector and civil society agencies. The pressure on civil service numbers is unlikely to relax in the foreseeable future, and the impact of reform on poverty, a central concern of the Copenhagen Declaration, will need to be monitored closely in the years ahead.

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